United Nations A/67/223

General Assembly

Distr.: General
2 August 2012

Original: English

Sixty-seventh session
Item 24 (b) of the provisional agenda*
Eradication of poverty and other development issues: industrial development cooperation

Industrial development cooperation

Note by the Secretary-General

The Secretary-General hereby transmits the report of the Director General of the United Nations Industrial Development Organization (UNIDO), in accordance with General Assembly resolution 65/175 of 20 December 2010.

* A/67/150.

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Report of the Director General of the United Nations Industrial Development Organization

Summary

In the present report, prepared in accordance with General Assembly resolution 65/175 of 20 December 2010, the Director General of the United Nations Industrial Development Organization (UNIDO) reviews recent trends in industrial development, including manufacturing growth in developing countries and regions and its relationship to economic growth and development. The report also covers emerging challenges which have an impact upon industrial development and which should be addressed through international industrial cooperation, including growth and jobs; resource efficiency, energy poverty and climate change; shifting demographics; knowledge creation and transfer; and growing inequalities.

In addition, the report explores the role of industrial development in the context of the development agenda beyond 2015, making clear recommendations for action in that regard. Furthermore, the report describes the role of UNIDO, as the specialized agency of the United Nations mandated to promote inclusive and sustainable industrial development and international industrial cooperation.

I. Industrial development in review

A. Introduction

1. Since the adoption by the General Assembly of the United Nations Millennium Declaration (resolution 55/2 of 8 September 2000) and the creation of the Millennium Development Goals, millions have been lifted out of poverty. The proportion of the world's population living on less than $1.25 a day fell from 42 per cent in 1990 (the baseline year for Millennium Development Goal targets and indicators) to 25 per cent in 2005, and is projected to fall to 14 per cent by 2015.[1] This impressive success in the area of income poverty is largely due to the increased industrialization and growth of related economic activities in a range of developing countries, especially China. However, progress towards reaching the full range of Goals, which did not prioritize economic growth as a means of achieving development objectives, remains uneven. For example, the absolute number of poor people rose in South Asia and in sub-Saharan Africa between 1990 and 2005.[2]

2. One remarkable change in the past two decades has been the shift in location of the world's poor, from low-income countries to middle-income countries. It is estimated that in 1990 over 90 per cent of the world's poor people lived in low-income countries, while there is evidence that today almost three quarters of the world's poor live in middle-income countries.[3] At the same time, the ongoing global financial and economic crises, the food and energy crises, and the more recent European sovereign debt crisis have had a negative effect on world economic growth and continue to pose challenges to development efforts. Recession in many industrialized countries has led to pressure on global official development assistance (ODA) budgets, for which total spending declined in 2011 for the first time since 1997. However, middle-income countries are rapidly increasing their development cooperation. According to some estimates, South-South cooperation already accounts for about $15 billion in development cooperation each year and could provide over $50 billion by 2025.[4] Some analyses of South-South cooperation spending indicate a firmer emphasis on industrial and economic activity generally, compared to the tendency of traditional donors to fund the social, humanitarian and governance sectors.[5] Although it remains to be seen how the new Global Partnership for Effective Development Cooperation will operate in practice, the fact that such key donors as Brazil, China and India, non-members of the Organization for Economic Cooperation and Development (OECD), have joined with their traditional counterparts

[1] World Bank, *Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs* (Washington, D.C., 2011).

[2] S. Chen and M. Ravallion, "An update to the World Bank's estimates of consumption poverty in the developing world", Briefing note (Washington, D.C., World Bank, 2012).

[3] United Nations System Task Team on the Post-2015 United Nations Development Agenda, "Realizing the future we want for all: report to the Secretary-General" (New York, United Nations, 2012).

[4] H. Kharas and A. Rogerson, *Horizon 2025: Creative Destruction in the Aid Industry* (London, Overseas Development Institute, 2012).

[5] J. Turner and others, "Changing the game for Africa's infrastructure: what role does South-South cooperation play in addressing Africa's infrastructure gap and under what terms?", paper presented at the Fourth European Conference on African Studies, Uppsala, Sweden, June 2011. Available from bit.ly/OwJIrd.

may herald a new era for South-South cooperation for development.[6] The Partnership's embrace of the private sector also highlights the relatively small size of ODA as a subset of all global financial flows.

3. This shift in the locus of poverty and the growing complexity of development cooperation networks has given rise to fundamental questions about the optimal role of the programmes, funds and specialized agencies of the United Nations system and other development partners in promoting development in developing countries beyond the expiration of the Millennium Development Goals in 2015. The present report elaborates upon that issue in the specific context of industrial development cooperation and arrives at conclusions and recommendations for action in that regard.

4. Central to the present report, as in most forward-looking analyses or studies on global development, is sustainable development. It is almost axiomatic to say that the ongoing financial and economic crises have been aggravated by negative environmental trends, of which climate change has the most critical consequences. Nevertheless, despite the fact that the concept of sustainable development with its economic, environmental and social pillars was first articulated in the report of the World Commission on Environment and Development (Brundtland Commission) in 1987, its operationalization as a development paradigm has proven difficult. Indeed, in the past two decades there has emerged an unhelpful dichotomy of global goals for human development on the one hand and various processes concerning environmental issues on the other. Although Goal 7 of the Millennium Development Goals is "to ensure environmental sustainability", that framework did not successfully merge the two streams. In the light of the United Nations Conference on Sustainable Development held in Rio de Janeiro, Brazil, in June 2012 (Rio+20), at which Member States agreed to a process to draw up a set of sustainable development goals, the opportunity to do so has now arisen. In the Conference outcome document, "The future we want", Member States recognized that the sustainable development goal process needed to be coordinated and coherent with the processes to consider the post-2015 development agenda.[7]

5. The present report should be viewed as an input to both processes. In that connection, the report also describes the response of the United Nations Industrial Development Organization, as the specialized agency of the United Nations system mandated to promote inclusive and sustainable industrial development and international industrial cooperation.

B. Recent trends in industrial development

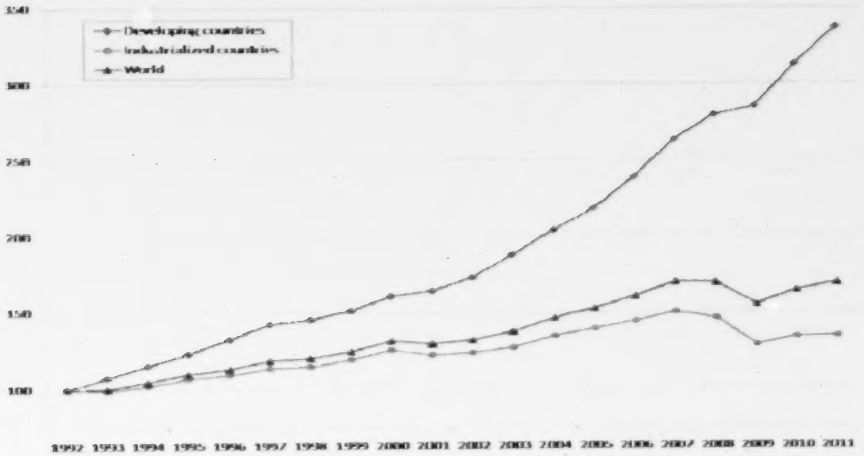
6. The reduction in poverty levels witnessed over the past two decades is mirrored by the increasing industrialization of developing countries. Following a period of remarkable growth, world manufacturing value added (MVA) reached a peak of $9.8 trillion in 2008, but fell in 2009 as a result of the global financial and

[6] See the list of countries, territories and organizations that have declared their support for the Busan Partnership for Effective Development Cooperation, adopted by the Fourth High-Level Forum on Aid Effectiveness, Busan, Korea, December 2011. Available from http://www.aideffectiveness.org/busanhlf4/images/stories/Busan_Partnership_endorsements.pdf.

[7] See General Assembly resolution 66/288, annex, para. 249.

economic crises. Industrialized countries were hit the hardest, with manufacturing output decreasing by 12.4 per cent in real terms in 2009 (see figure I).[8]

Figure I
Growth trends in world MVA, 1992-2011
(Constant 2000 United States dollars; 1992 = 100)

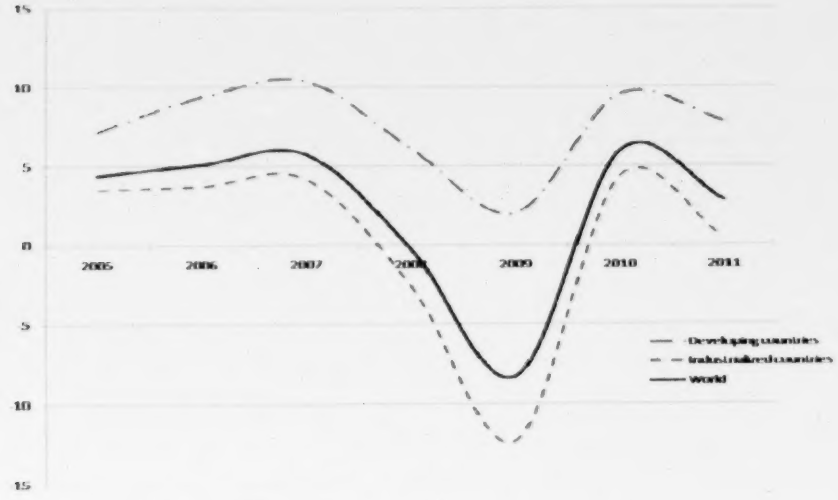


Source: UNIDO statistical database.

7. World manufacturing growth showed initial signs of recovery in 2010. However, this recovery stalled in 2011, due in particular to increasing financial instability in European countries. Global manufacturing value added still grew by 5.1 per cent in 2011, with much of that growth emanating from developing countries. As a group, developing countries saw their MVA grow by 8.4 per cent in that year, compared to growth of 3.2 per cent in industrialized countries (see figure II).

[8] Unless otherwise stated, all data provided in section I.B have been obtained from UNIDO statistical databases or UNIDO statistical products, including the *International Yearbook of Industrial Statistics* (Cheltenham, United Kingdom of Great Britain and Northern Ireland, Edward Elgar Publishing, 2012).

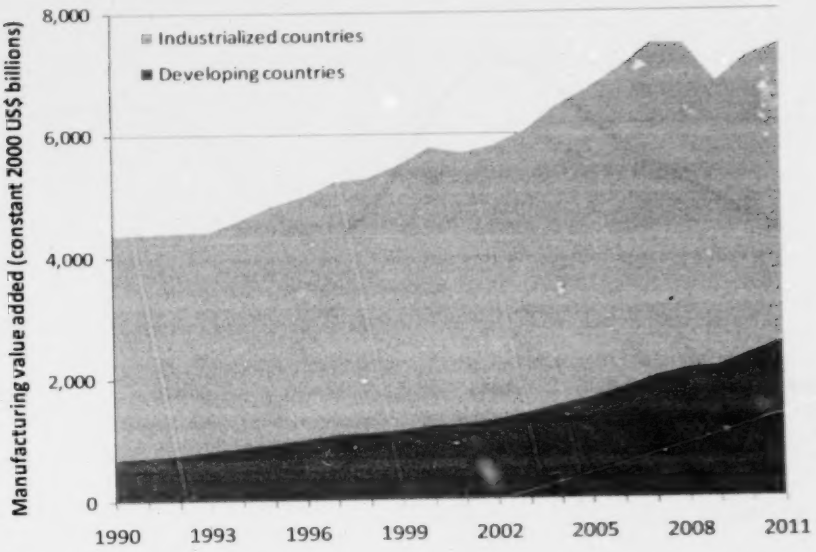
Figure II
Annual growth of world manufacturing value added, 2005-2011
(Constant 2000 United States dollars)



Source: UNIDO statistical database.

8. Figure III shows the relative resilience of manufacturing in developing countries, which has so far shielded many people from the effects of the financial and economic crises, including the recently observed drop in ODA. Developing countries now account for 34 per cent of world MVA, the highest observed to date. There are three main factors explaining why these countries have increased their MVA share and generally maintained economic growth rates so far. First, manufacturers in industrialized countries have tended to outsource production activities to developing countries, resulting in the physical transfer of plants and production from industrialized to developing countries. Second, industrialized economies have shifted towards the provision of services, which have generally proven more susceptible to the effects of the financial and economic crises. Third, developing countries are less dependent on the financial sector, which accounts for up to 30 per cent of gross domestic product (GDP) in some industrialized countries. In developing countries, the financial sector occupies a much smaller share and generally plays a supporting role in the economy. Therefore, the ongoing financial crisis has tended to have a more severe impact on industrialized countries while having a milder effect on the economies of developing countries.

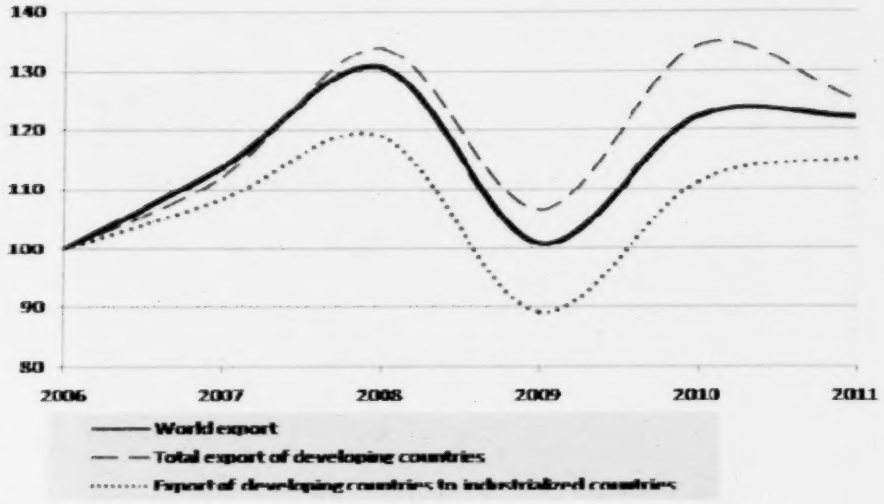
Figure III
Manufacturing value added, 1990-2011
(Constant 2000 United States dollars)



Source: UNIDO statistical database.

9. However, evidence is now growing that the drop in demand for consumer goods in external markets is making the outlook more uncertain for developing countries. While developing countries in general have maintained positive growth trends throughout the financial and economic crises, export levels fell by almost one fifth in 2009. Exports of such basic commodities as food and beverages were affected only slightly, but exports of industrial materials, machinery and equipment suffered a sharper drop. The change in world export levels and in the export levels of developing countries is depicted in figure IV.

Figure IV
Change in world export levels, 2006-2011
(Constant 2000 United States dollars; 2006 = 100)

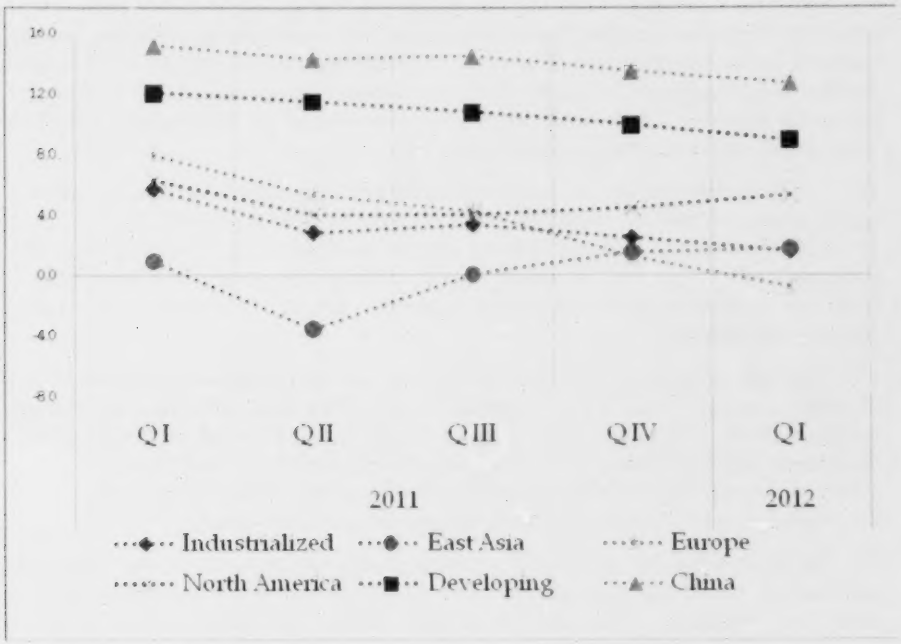


Source: UNIDO statistical database.

10. Figure V demonstrates how different dynamics hold sway in different groups of countries. For both the United States of America and Japan, manufacturing has been the key source of economic growth and recovery from the financial crisis, despite the setback suffered by Japan as a result of the earthquake of March 2011. In Europe, however, the latest figures indicate that MVA has fallen in nearly all major economies of the eurozone except Germany, where it grew by 2 per cent in the first quarter of 2012. Meanwhile, the persistence of financial instability in the eurozone has led to spillover effects on industrial growth in several European countries. Many national Governments have adopted policies and initiatives intended to bring fiscal consolidation. Loss of consumer demand and a subsequent decline in production are evident. Several European Governments are now considering modifying the focus on fiscal consolidation by using industrial policy as part of a strategy towards economic growth.

11. The quarterly production indices in figure V suggest that since the beginning of 2011, the growth rate of MVA has gradually been declining in developing countries as well, especially in China. That decline correlates with the above-mentioned drop in export levels (see para. 9; fig. IV). The current slowdown of MVA in developing countries may continue until the economic and financial conditions in Europe have improved, or until sufficiently strong levels of demand are reached in domestic or "South-South" markets.

Figure V
Quarterly growth trends of major country groups, 2011 and first quarter of 2012
(Percentage growth compared to same period of previous year)



Source: UNIDO statistical database.

12. The East Asia and the Pacific region accounts for more than three quarters of MVA in developing countries, or $1,929 billion in 2011, and is thus the largest manufacturing region by far. China accounts for much of this MVA (see para. 13). In contrast, MVA for sub-Saharan Africa remains very low, accounting for only 1 per cent of developing country MVA. However, as a group, low-income countries have been gaining share in global manufacturing, led by growth in Bangladesh, Cambodia, the Lao People's Democratic Republic and the United Republic of Tanzania. Nevertheless, the low-income countries' share of 1.4 per cent remains small compared to that of the middle-income countries, which account for 25.1 per cent of global manufacturing (excluding China).

13. There also continues to be great variance within and across regions. China and India have seen the largest surge in terms of share of MVA in the last two decades, with China's share of developing country MVA increasing from 16.9 per cent in 1990 to 48.3 per cent today. With a global share of 16.5 per cent of MVA in 2011, China now ranks as the second largest manufacturer after the United States (with 23.5 per cent). India, with an economy focused more on services, has increased its global share of MVA to 2.2 per cent. China and India, together with Brazil, the Russian Federation and South Africa, form the so-called "BRICS" group of leading emerging economies. According to UNIDO statistics, these five countries produced more than one fifth of global MVA in 2011, and the group's annual growth rate of MVA has averaged 8.6 per cent over the past decade.

C. Conclusions on recent trends in industrial development

14. The global financial and economic crises have led to considerable challenges for the world economy, including the manufacturing sector. Recent trends reveal relatively high but gradually declining growth in developing countries, steady recovery in the industrialized countries of North America and East Asia, but fragile conditions in European countries owing to prolonged financial instability. Reduced consumer spending and business investment exacerbated the manufacturing decline in industrialized countries, particularly in 2009.

15. As demonstrated by the Asian region in particular, manufacturing remains a major source of overall economic growth for developing countries. Over the past 15 years, the share of MVA in GDP in developing countries exceeded 20 per cent, compared with 15 per cent in industrialized countries. However, the overall growth trend for developing countries masks disparities between the various developing regions and countries.

16. Manufacturing in developing countries has also undergone important structural changes in recent years. Apart from traditional processing industries, developing countries have maintained high growth in the production of chemical goods, machinery and equipment, electric and electronic appliances and motor vehicles. Those developments have significantly improved the industrial performance of developing countries in terms of productivity and competitiveness.

17. Without a doubt, a healthy manufacturing sector and strong industrial performance contribute significantly to economic growth and poverty reduction in developing countries. The question of how those clear benefits can be more equitably shared across countries and regions in a sustainable manner will be the central issue for industrial development cooperation in the years to come, and raises a number of related issues such as access to energy, resource productivity and capacity to produce goods and compete in markets. Success will depend on the degree to which industrial development is reintegrated into the mainstream of multilateral development cooperation, with an emphasis on achieving patterns of industrial production consistent with the achievement of economically competitive, socially inclusive and environmentally sustainable development.

II. Industry and the development agenda beyond 2015

A. Inclusive and sustainable industrial development

18. The concept of industrial development was one of the first aspects of global development to be addressed by the United Nations system. Following discussions in the Economic and Social Council on productivity in industry in the early 1950s, the United Nations initiated a programme of work on industrialization, and an industry section was established within the Department of Economic and Social Affairs. Those steps eventually led to the establishment of UNIDO in 1966 as an autonomous organization within the United Nations, and in 1985 as a specialized agency.

19. Nevertheless, the definition of, and approach taken to, the role of industry in development has not always been straightforward. At times — especially following the near-universal adoption of the "Washington Consensus" on economic policy in

the early 1990s — industrial development was deemed by some to be outside the mainstream of development thinking. In part, that notion has been a matter of semantics rather than substance. Even as the validity of industrial development was being questioned, the model of sustainable development adopted at the United Nations Conference on Environment and Development, held in Rio de Janeiro, Brazil, in 1992, contained at its core a vision of increasing industrial productivity in a way that safeguards the environment for future generations.

20. Industrial development has proven to be the key factor in creating wealth to lift people out of poverty. This has been the experience of successive countries and regions, from Europe to North America to East Asia. Industrial development also remains a precondition for long-term sustainable economic growth and social advancement. It plays a leading role in encouraging technological innovation; increasing productivity; promoting entrepreneurship; generating employment and income; and creating sectoral linkages, such as those with agriculture and the services sector. Industry tends to provide more stable and higher-quality jobs, often reducing the inequality gap in developing countries.[9] Through linkages with the global economy, MVA growth also plays a critical role in increasing export earnings.

21. However, current systems of production and consumption are causing rapid resource depletion, pollution, degradation of ecosystems and the threat of climate change, particularly affecting poor communities in developing countries. The need to meet the requirements of the growing world population will further increase pressure on agricultural production and resource availability. It is therefore critical to move towards integrating industry, food, water and energy issues so that present and future generations can realize their right to development.

22. The corollary of the circumstances outlined above is that industry should be incorporated more fully into future development frameworks. The former Chief Economist of the World Bank, Justin Lin, has argued that the global age of industrialization in the developing world has just begun,[10] largely due to the potential for developing countries to benefit from available technologies and the increasing relocation of labour-intensive industries to lower-wage, low-income countries.

23. With hindsight, one of the weaknesses of the agenda of the Millennium Development Goals was the limitation of development priorities to the social sectors only. It is arguable that by de-emphasizing other sectors, the Goals had the effect of reducing the importance that development partners attached to ODA policies and strategies in support of infrastructure, agriculture and industrial development, with a possibly detrimental effect on growth and job creation, and on poverty reduction in the long term.[11] As suggested in section I of the present report (see para. 4), the Goals also missed the opportunity to place sustainability at the centre of approaches to development. Given the preceding wide range of challenges faced by development

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[9] D. Rodrik, "The manufacturing imperative" (Project Syndicate, August 2011). Available from http://www.project-syndicate.org/commentary/the-manufacturing-imperative.

[10] See J. Lin, *New Structural Economics: a Framework for Rethinking Development and Policy* (Washington, D.C., World Bank, 2012). The author also points out that if only 1 per cent of China's production of apparel were shifted to lower-wage African countries, African production and exports of apparel would increase by 47 per cent.

[11] See Ha-Joon Chang, "*Hamlet* without the Prince of Denmark: how development has disappeared from today's 'development' discourse", in *Towards New Developmentalism: Market as Means Rather than Master*, edited by S. Khan and J. Christiansen (New York, Routledge, 2011).

partners, it is now of the utmost importance that the post-2015 development agenda be based on all three dimensions of sustainable development — economic, environmental and social — and bring together all parts of the United Nations system to meet the new goals.

B. Challenges and opportunities for the post-2015 development agenda

24. The present section considers ongoing and emerging challenges and opportunities in industrial development cooperation that should be considered in the context of the post-2015 agenda.

Resource efficiency, energy poverty and climate change

25. Resource efficiency will play an increasingly important role in the context of global stability, security and development. Inefficient technologies and operating practices currently in use by many industries in developing countries will need to be replaced. Those issues are explicitly recognized in the outcome document of Rio+20, which calls for the establishment of facilitation mechanisms to promote the development, transfer and dissemination of clean and environmentally sound technologies (see General Assembly resolution 66/288, paras. 269-276). Appropriate strategies for increasing resource productivity thus need to be a priority beyond 2015.

26. Energy access is one of the most pressing of all the global challenges and is central to the three pillars of sustainable development. By its resolution 65/151 of 20 December 2010, the General Assembly declared 2012 the International Year of Sustainable Energy for All, and in its resolution 66/206 invited Member States to use the Year as an opportunity to support the Secretary-General's Sustainable Energy for All initiative. In the initiative, the Secretary-General set out three interlinked and complementary global goals: (a) ensuring universal access to modern energy services; (b) doubling the rate of improvement in energy efficiency; and (c) doubling the share of renewable energy in the global energy mix. Those ambitious but achievable goals can be reached with the right mix of policy incentives, public finance and private capital. So far, over 50 countries are supporting the initiative. The Sustainable Energy for All initiative also includes a significant element of private sector partnership, with more than 100 commitments by private enterprises, valued at over $50 billion. Member States should consider incorporating the preceding goals into the broader post-2015 framework.

27. As the impacts of climate change become clearer, it is increasingly evident that a large number of the poor will become vulnerable to its effects. Of the 20 countries most at risk from extreme weather by 2015, 19 are countries with large numbers of poor people.[12] That situation renews the urgency to move towards "green" industry in developing and industrialized countries alike.

Growth and jobs

28. In contrast to the expansion of employment opportunities across much of Asia and elsewhere during the 1980s and 1990s, the phenomenon of "jobless growth"

[12] See "Mapping the impacts of climate change", Center for Global Development. Available from http://www.cgdev.org/section/topics/climate_change/mapping_the_impacts_of_climate_change.

characterizes the experience of many developing countries and regions today.[13] In Africa as a whole, although the past decade has seen strong growth and export performance, it has tended to be restricted to the commodity and natural resource sectors. While exports have grown by 18.5 per cent a year and GDP by 5.4 per cent, the number of jobs has increased by only 3 per cent annually.[14] This represents a failure not only to create sufficient employment in existing sectors but also to expand the range of employment opportunities through economic diversification. A 3 per cent increase in employment is not sufficient to stem rising youth unemployment and its associated social, political and economic strains.

29. It is clear that, for the poor, and for both developing and industrialized countries, employment and the lack of it will be a crucial issue for some time. The revised monitoring framework for the Millennium Development Goals (see A/62/1, annex II) incorporates a target on full employment (1 (b)), but it has proven difficult to operationalize and has been largely sidelined. Many are calling for the development system beyond 2015 to pay more attention to questions of growth, production and employment.[15] In that context, goals to increase national productive capacities and maximize productive employment opportunities should be considered.

Shifting demographics: food, urbanization and migration

30. Related to the need for productive employment is the continued increase in world population, which was estimated to have reached 7 billion in March 2012. It is expected that by 2050, the global economy will need to support more than 9 billion people, of whom 85 per cent will be living in what are now developing countries. Africa will account for about half of the absolute increase in population and be home to nearly one quarter of the world population by 2050.[16] While global food production has so far outpaced population growth, it will need to double between now and 2050 or food insecurity will increase dramatically,[17] meaning that the agro-industrial sector is likely to assume even greater importance for developing countries beyond 2015 as a means of reducing post-harvest losses and facilitating the transport and marketing of food.

31. More complex demographic shifts are also expected in the years to come. While the proportion of youth as a whole will continue to rise in Africa and some other regions, middle-income countries such as China will see a shift to an older population profile, potentially affecting growth in the productive sectors. Urbanization is likely to continue in most developing countries, bringing risks but also potential opportunities for industrial development. Migration is also on the rise; about 1 billion persons now live outside their place of origin.[18] Although the reasons for

[13] See A. Mehta and others, *India Chronic Poverty Report: Towards Solutions and New Compacts in a Dynamic Context* (New Delhi, Indian Institute of Public Administration, Chronic Poverty Research Centre, 2011); and E. Aryeety and W. Baah-Boateng, *Growth, Investment and Employment in Ghana*, Working Paper No. 80 (Geneva, International Labour Office, 2007).

[14] See "Jobless growth", *The Economist* (3 June 2010).

[15] See, for example, United Nations System Task Team on the Post-2015 United Nations Development Agenda, "Realizing the future we want for all: report to the Secretary-General" (New York, United Nations, 2012).

[16] United Nations Population Fund, *State of World Population 2011* (New York, 2011).

[17] Food and Agriculture Organization of the United Nations, *The State of Food Insecurity in the World 2011* (Rome, 2011).

[18] United Nations, Department of Economic and Social Affairs, Trends in international migration stock: migrants by age and sex (2011). Available from http://esa.un.org/MigAge/.

migration are diverse, it is apparent that the lack of economic opportunities in developing countries is a key "push factor" that deserves greater attention from development partners in the future.

Knowledge creation and transfer

32. Opportunities for the creation, transmission and dissemination of knowledge have transformed industry worldwide, yet there remain significant gaps in access to knowledge by many developing countries and poor people. Over the past decade it has become evident that the importance of knowledge transfer is equal to, or in some cases exceeds, the importance of technology transfer.[19] Limited access to knowledge hampers progress towards inclusive growth and employment creation as well as technological progress for sustainable development and for food, nutrition and energy security. A major challenge for the United Nations development system and its development partners generally will be to enhance access to untapped knowledge and create the space for national, global and regional knowledge streams for policymaking and capacity-building. One potential approach to encourage knowledge networks, piloted by UNIDO together with a range of partners, is described in section III (see paras. 54-55).

Inequalities: income, gender, rights

33. The changing distribution of global poverty towards a concentration in middle-income countries presents particular challenges for industrial development cooperation. For one, it challenges orthodox views that most of the world's poor live in the world's poorest countries, and suggests that substantial pockets of moderate, or even extreme, poverty can persist at higher levels of average per capita income. Underlying this point is the need to ensure that the benefits of wealth creation are spread across society. During periods of rapid economic transformation, as countries move from low-income towards middle-income levels, average incomes rise and the incidence of extreme poverty generally declines. However, poverty and vulnerability to poverty may continue for substantial proportions of the population. It follows from this that development strategies and policies will increasingly need to tackle socioeconomic inequalities stemming from unequal patterns of growth and wealth distribution. It has been noted that a vibrant manufacturing sector tends to reduce the inequality gap (see para. 20).[20]

34. In addition, other inequalities and disparities may arise or intensify, especially as a result of marginalization on the grounds of gender or denial of human rights. If, despite a reduction in extreme poverty, inequality is rising, future development and shared prosperity may be impeded. It will be necessary, therefore, for industrial development policies and strategies to counter such inequalities by incorporating a gender lens and using a human rights-based approach to development.[21]

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[19] See J. Lin and D. Rosenblatt "Shifting patterns of economic growth and rethinking development", World Bank Policy Research Working Paper No. 6040 (Washington, D.C., World Bank, 2012).

[20] See D. Rodrik, "The manufacturing imperative" (Project Syndicate, August 2011). Available from http://www.project-syndicate.org/commentary/the-manufacturing-imperative.

[21] For more information on United Nations system actions to promote a human rights-based approach, see the United Nations Practitioners' Portal on Human-Rights-Based Approaches to Programming. Available from http://hrbaportal.org/.

III. Role of the United Nations Industrial Development Organization

A. Introduction

35. UNIDO aspires to reduce poverty through inclusive and sustainable industrial development. In pursuit of that objective, the organization offers focused services clustered into three thematic priorities: poverty reduction through productive activities; trade capacity-building; and energy and environment. While UNIDO interventions primarily seek to build up and strengthen robust and resilient industrial capacities, the organization also retains the flexibility to provide industrial reconstruction services in post-crisis situations. The present section provides a selective but balanced overview of the impact of UNIDO services on the emerging sustainable development agenda.

36. The organization is aligned with relevant United Nations system-wide initiatives and coordination mechanisms at the global, regional and country levels, for example by chairing UN-Energy and actively participating in the "Delivering as one" initiative. Working partnerships have been developed with sister organizations, including the United Nations Development Programme (UNDP), the Food and Agriculture Organization of the United Nations (FAO), the United Nations Human Settlements Programme (UN-Habitat), the International Fund for Agricultural Development (IFAD), the United Nations Conference on Trade and Development (UNCTAD), the World Trade Organization (WTO), the United Nations Environment Programme (UNEP), the International Trade Centre (ITC), the United Nations Educational, Scientific and Cultural Organization (UNESCO), the International Labour Organization (ILO), the World Tourism Organization (UNWTO) and the World Intellectual Property Organization (WIPO).

B. Programmatic focus areas

37. The role of UNIDO in industrial development, in the light of changing international priorities and challenges and the emergence of inclusive and sustainable development as the centre of an overarching development agenda for the United Nations and other actors, is illustrated in figure VI. The figure provides a holistic view of the interrelationships between different aspects of industrial development, so that UNIDO programmatic areas of focus are not segregated from each other, but are mutually supporting, each related to one or more of the three dimensions of sustainable development (see para. 23). Development outcomes and impacts are achieved through four enablers: technical cooperation; analytical and policy advisory services; normative activities; and convening for knowledge transfer and knowledge networking.[22]

[22] See resolution 65/175, para. 22.

Figure VI
The role of UNIDO in industrial development

38. The programmatic focus areas are designed to have a catalytic and transformative effect on the economic structures of the programme countries, with the aim of promoting economic growth and diversification in a socially inclusive and environmentally sustainable manner. Although specific UNIDO programmes and activities may address one or more of the three dimensions of sustainable development to varying degrees, highlighting the complexity of the development process, taken together they are intended to provide a comprehensive and coherent set of services to address all three dimensions of sustainable development.

South-South cooperation and technology transfer

39. UNIDO has since its foundation recognized that the sharing of technological advances and best practices among developing countries is a key driver for effective industrial development, and the organization continues to further South-South cooperation within its technical cooperation programmes and convening functions. In addition to its well-established centres for South-South industrial cooperation in China and India, UNIDO convenes global and regional events promoting South-South industrial cooperation. In November 2012, UNIDO will host the fifth Global South-South Development Expo, which will be held in Vienna, with a focus on energy and climate change.

40. In the outcome document of Rio+20, the General Assembly requested the relevant United Nations agencies to identify options for a facilitation mechanism that promotes the development, transfer and dissemination of clean and environmentally sound technologies.[23] UNIDO believes that well-functioning and nationally, regionally and internationally net worked knowledge platforms should

[23] See resolution 66/288, para. 273.

constitute a central component in the design and implementation of such a mechanism. The organization's diversified but networked range of knowledge platforms offers specialized services for the transfer of suitable technologies and the promotion of investment in green industry. They include the national cleaner production centres and the associated resource-efficient and cleaner production network, the soon-to-be-established climate technology centres, the investment and technology promotion offices, the centres for South-South industrial cooperation, and the UNIDO Institute for Capacity Development. UNIDO is engaging with United Nations partners to offer the services of the above-mentioned platforms as the potential operational elements of the future technology facilitation mechanism.

Agro-industry

41. In many parts of the developing world, the potential of agro-enterprises remains unexploited as a result of limited access to markets, information, infrastructure, technology and finance. Nevertheless, the agricultural sector is still the backbone of economic activity, employment and livelihoods in many developing countries. Strengthening the sector and adding value to agricultural commodities are instrumental in enhancing food security, stimulating economic growth and reducing poverty in a sustainable manner.

42. Through the African Agribusiness and Agro-Industries Development Initiative, in partnership with the African Development Bank (AfDB), FAO and IFAD, UNIDO focuses on improvement of productivity and competitiveness, improvement of quality and facilitation of access to markets for key agricultural products selected by the local authorities, in line with national strategies. UNIDO also uses convening activities to provide knowledge-sharing opportunities for government representatives, members of agro-industry, representatives of civil society and development experts. Recent examples of such activities related to the Initiative were focused on promoting a better understanding of how agricultural producers and agribusiness enterprises in developing countries could take advantage of the opportunities arising from agriculture-based value chains and address the challenges of accessing them.

Trade capacity-building

43. In its trade capacity-building focus area, UNIDO complements the work of its sister organizations by strengthening competitive productive capacities for international trade; developing national and regional legal and institutional frameworks for quality, standards, metrology, conformity assessment, accreditation and technical regulations; facilitating the efforts of its client countries to promote industrial exports and create export consortiums; and assisting small and medium-sized enterprises to meet the standards and requirements of corporate social responsibility in their home and export markets. The organization has the largest portfolio of trade-related capacity-building projects in the United Nations system and is an implementing partner in both the Enhanced Integrated Framework initiative and the Standards and Trade Development Facility. A study for the Norwegian Agency for Development Cooperation (Norad), published in 2011, found

that UNIDO delivered good value for money in the field of standards and quality, an area where the organization has unique competence internationally.[24]

44. Many UNIDO activities are undertaken in partnership with other actors. One mechanism for cooperation is the Inter-Agency Cluster on Trade and Productive Capacity of the United Nations System Chief Executives Board for Coordination, with which UNIDO is undertaking joint projects in several countries within the framework of the Delivering as one initiative, including Cape Verde, the Lao People's Democratic Republic and the United Republic of Tanzania. During the Fourth United Nations Conference on the Least Developed Countries, held in Istanbul in May 2011, UNIDO and UNCTAD organized a special event on behalf of the Cluster at which a joint concept note entitled "Development of productive capacities and trade: the key to inclusive and sustainable growth" was presented. The note outlined the importance of trade and productive capacity for the least developed countries, maintaining that socioeconomic progress in the least developed countries has often been hampered by insufficient attention to the productive sectors as the basis of social and economic development.

45. In the globalized market where products originate from a variety of countries, Governments have a responsibility to ensure the health and safety of consumers, animals and the environment before those products enter their markets. National authorities closely scrutinize incoming shipments at their borders — food products, in particular, receive special attention — and reject consignments that fail to meet their standards. UNIDO is a key source of expertise in this field. The trade standards compliance report,[25] published in 2010, documents the incidence of border rejections, estimates export losses resulting from non-compliance and describes the implications for trade capacity-building. The first in a planned series of reports, it is an innovative policy guidance tool for developing countries, donors and technical agencies alike.

46. At the regional level, UNIDO has supported the establishment of a regional quality policy in the countries of the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (UEMOA), while the Gambia, Ghana, Sierra Leone and Zambia have received assistance in establishing national quality policies. UNIDO works with the East African Community (EAC) to build up and harmonize legal and regulatory frameworks (standards and technical regulations) as well as related infrastructure and services. In Cambodia, Nepal and Viet Nam, testing laboratories have been upgraded, and similar laboratory capacity is being rebuilt in Iraq.

47. Food safety is an increasingly important aspect of quality infrastructure development, for imported and locally produced products in local markets as well as for products to be exported to external markets. Through technical cooperation, numerous countries have received assistance with the development of national food safety laws, sanitary and phytosanitary legal and regulatory frameworks, and support for the strengthening of a local, modern, risk-based management system of food safety.

[24] See Norwegian Agency for Development Cooperation, *Norway's Trade Related Assistance through Multilateral Organizations: a Synthesis Study*, Evaluation studies series No. 8/2011 (Oslo, 2011).

[25] See UNIDO, "Meeting standards, winning markets: trade standards compliance 2010" (Vienna, 2010). Available from http://www.unido.org/index.php?id=o723020.

Business and investment

48. The creation and maintenance of an enabling business environment is a necessary condition for enterprise development, yet must not remain limited to a narrow set of regulatory reforms. The UNIDO response, for example through its successful business environment programme in Viet Nam, is to combine advisory and technical cooperation services to foster capacity at the institutional and policy levels for the creation and improvement of a business environment that enhances the private sector's contribution to inclusive growth.

49. The foremost prerequisite for economic growth in developing countries is investment, much of which needs to be attracted from outside. The Africa Investment Promotion Agency Network is a UNIDO initiative that provides national investment promotion agencies in Africa with a common platform to discuss and design investment promotion strategies. The network builds the capacity of the agencies by providing accurate, up-to-date investor information and technical cooperation to help them readjust investment promotion strategies to reap the benefits of international investment and link local productive sectors to the global economy. The Africa Investment Promotion Agency Network model will be extended to other regions in the future. The initiative is complemented by the UNIDO investment and technology promotion offices, which are based largely in industrialized countries and provide local investors from those countries with information on opportunities, legal and economic conditions and business contacts in developing countries.

50. UNIDO operates subcontracting and partnership exchange centres in 10 African countries — Cameroon, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, South Africa, Uganda, the United Republic of Tanzania and Zambia — to identify benchmarks and match local small and medium-sized enterprises to foreign investors for whom they could serve as suppliers and subcontractors, thus enhancing the impact of foreign direct investment on development. UNIDO also recently established new centres in Iraq and supported the operations of enterprise development units that provide services to Iraqi entrepreneurs, including counselling, business plan development, investment promotion, financial linkages and matchmaking.

51. UNIDO targets the private sector as a key partner in achieving development goals. In addition to the successful partnerships under the Sustainable Energy for All initiative and the Green Industry Platform (see paras. 56-57), the organization also works with the private sector in such areas as youth entrepreneurship, corporate social responsibility, access to supply chains, and improvements in product quality, food safety and competitiveness. While developing those areas of cooperation, UNIDO is continuously seeking to identify new and fruitful ways to collaborate in order to deliver even greater development impact. In addition, as the fifth core agency of the United Nations Global Compact, UNIDO partners with the members of the Global Compact to address the specific needs and support requirements of small and medium-sized enterprises as a means of supporting increased productivity and competitiveness for developing economies.

Productive employment for youth

52. Youth unemployment remains a major challenge to both the Governments and the populations of many developing countries. Given the often limited absorptive capacity of formal labour markets, youth entrepreneurship is a feasible option to

create employment. The UNIDO enterprise development and investment promotion approach goes beyond entrepreneurship training through counselling during the business start-up and growth phase, and facilitates access to adequate financial schemes through partnerships with financial institutions. For example, an enterprise development and investment promotion initiative in Senegal provides jobs for youth by creating linkages between local businesses and institutions providing technical and vocational education, promoting entrepreneurship and improving the quality of products and services in the fishery, agriculture and service sectors. The initiative has also been implemented with a specific youth focus in Mozambique, Tunisia and the countries of the Mano River Union. The UNIDO *Industrial Development Report 2013* will examine in detail the relationship between sustainable industrialization and employment generation from a dynamic and global perspective. Specifically, it will address the issue of the manufacturing industry's capacity to generate employment and the steps Governments can take to promote employment opportunities in the industry.

Women in productive activities

53. Despite the considerable progress that has been achieved in improving the status of women through access to education and employment, they often remain excluded from mainstream economic activities and suffer disproportionately from poverty. UNIDO addresses this issue through policy advisory services and technical cooperation. For example, UNIDO prepared policy recommendations on gender in entrepreneurship development for the 2011-2020 national strategy for gender equality in Viet Nam (2011-2020), on the basis of consultations with a number of entrepreneurs throughout the country.

Knowledge and research for building productive capacity

54. To develop and strengthen innovative means of policy formulation and knowledge exchange in the context of private sector development, in 2011 UNIDO launched the global report entitled *Networks for Prosperity: Achieving Development Goals through Knowledge Sharing*,[26] which provides solid recommendations on leveraging the role of knowledge networks in private sector development and incorporates inputs from partner institutions in Bolivia, Costa Rica, Cuba, the Dominican Republic, Egypt, El Salvador, Ethiopia, Panama, Peru, Serbia, Turkey and Viet Nam. The report is part of a broader programme on development and the private sector undertaken in collaboration with the Millennium Development Goal Achievement Fund.

55. To make use of the latest knowledge and research in furthering industrial development in developing countries, UNIDO established the Institute for Capacity Development, offering training on key issues relating to sustainable industrial development and serving as a catalyst for innovative solutions, ideas and partnerships needed to achieve inclusive and sustainable patterns of globalization. The first executive programme of the institute, entitled "On top of the game: global strategies and negotiations towards green growth", was organized in October 2011 in cooperation with the University of Oxford and the Federal Ministry for European and International Affairs of Austria.

[26] UNIDO (Vienna, 2011). Available from http://www.unido.org/index.php?id=1001971.

Green industry and sustainable energy

56. The UNIDO Green Industry Platform is a voluntary multi-stakeholder partnership designed to provide a framework for participants, individually or in groups, to take specific and measurable action to advance environmentally sustainable approaches towards industry. The Platform was officially launched at Rio+20 in June 2012 and has thus far gathered commitments from over 70 partners, including national Governments, businesses and international organizations. It operates in four interrelated areas: resource efficiency for sustainable production and consumption; water optimization in manufacturing; industrial energy efficiency; and chemicals management. Signatory organizations can develop road maps to integrate green industry policies and practices in organizational strategies and business plans, share and profile best practices, and drive forward technological development, application and innovation.[27]

57. In connection with the Green Industry Platform and the Sustainable Energy for All initiative (see para. 26), UNIDO convenes major events on energy and green industry, bringing together a range of stakeholders to share experiences and identify actions for sustainable industrial development. The Vienna Energy Forum 2011, held in Vienna in June 2011, was organized in collaboration with the Federal Ministry for European and International Affairs of Austria and the International Institute for Applied Systems Analysis, and brought together more than 1,200 participants from 125 countries, including Heads of State, ministers and other policymakers, technical experts and representatives of civil society and the private sector. Other important events included the Tokyo Green Industry Conference, held in Tokyo in November 2011, and the Sustainable Biomass for Electricity Conference, held in May 2012 in Güssing, Austria. At Rio+20 in June 2012, UNIDO organized eight separate events on green industry, resource efficiency, renewable energy and industrial policy, including an exhibition co-hosted by the Government of Japan to showcase a selection of innovative environmental technologies.

58. UNIDO also contributes to the Sustainable Energy for All initiative through dedicated research and technical cooperation. In its publication, *Industrial Development Report 2011: Industrial Energy Efficiency for Sustainable Wealth Creation: Capturing Environmental, Economic and Social Dividends*,[28] UNIDO demonstrates that increased industrial energy efficiency is one of the most promising routes to sustainable industrial development worldwide, particularly in developing countries. Technical cooperation provided by UNIDO in energy comprises scalable and catalytic interventions to foster industrial energy efficiency, renewable energy in industry and rural electrification.

Resource efficiency and cleaner production

59. Considerable effort is undertaken to promote and support the network of national cleaner production centres as a platform for climate-related technology transfer. Pilot projects for low-carbon production in agro-processing value chains are under way in the former Yugoslav Republic of Macedonia and Uganda, and a water management project has been launched in Cambodia. A number of other initiatives are under preparation, following recent regional meetings at the centres in

[27] For further information, see http://www.unido.org/index.php?id=1002609.

[28] United Nations publication, Sales No. E.11.II.B.41. This and other editions of the UNIDO *Industrial Development Report* are available from http://www.unido.org/index.php?id=7676.

Europe and Central Asia, Latin America and Asia and the Pacific. A milestone reached in 2010 was the launch of a global resource-efficient and cleaner production network, with an inaugural membership of 41 countries. The functions of the network cover innovation and knowledge management, capacity-building, advocacy, quality assurance and branding.

Assistance in meeting norms on ozone-depleting substances and persistent organic pollutants

60. As one of the main implementing agencies of the Montreal Protocol on Substances that Deplete the Ozone Layer, UNIDO assists Member States to meet their obligations under the Protocol. The organization helps local governments and industries to upgrade technologies and become more efficient, cost-effective and environmentally friendly by preparing and appraising investment project proposals and implementing phase-out schedules for ozone-depleting substances at plant level. For example, in the refrigeration sector, UNIDO has fostered the use of natural refrigerants and has formulated the first two fully hydrocarbon-based domestic refrigeration projects. The organization's performance in helping countries to comply with the Protocol has consistently been rated very high by the Multilateral Fund for the Implementation of the Montreal Protocol. Between 2001 and 2011, out of 11 evaluations, UNIDO was ranked as the top implementing agency nine times, and as the second two times. 2012 marks the 25th anniversary of the Montreal Protocol, and UNIDO will organize a week-long event at its headquarters in Vienna in September to celebrate the success in achieving reductions in ozone-depleting substances that will protect the atmosphere for generations to come.

61. The Global Environment Facility (GEF) also views UNIDO as a key implementing partner for projects related to the eradication of the chemical pollutants identified in the Stockholm Convention on Persistent Organic Pollutants. As the Stockholm Convention continues to expand its list of chemicals, UNIDO will continue to develop projects on the management of industry-related chemicals to provide crucial innovative treatment processes and safe disposal technologies.

Support for the New Partnership for Africa's Development

62. While UNIDO supports developing countries in all regions, it has a key role in promoting the New Partnership for Africa's Development (NEPAD), in line with the Action Plan for the Accelerated Industrial Development of Africa, adopted by the Assembly of Heads of State and Government of the African Union at its tenth ordinary session, held in Addis Ababa from 31 January to 2 February 2008. Many UNIDO-organized meetings and activities are designed to foster the work of NEPAD, including the African Union-UNIDO Conference on Economic Diversification and Manufacturing in Africa, held in Addis Ababa in June 2012. One example of technical cooperation activities in support of African Union and NEPAD goals is a partnership with FAO and IFAD to build commodity value chains in 17 African countries. A further example is the ECOWAS regional centre for renewable energy and energy efficiency, established in 2009 in Cape Verde within the framework of the ECOWAS/UEMOA regional white paper policy on energy access. The centre is projected to contribute towards increasing access to modern energy services and improve energy security in ECOWAS member States, in support of the region's environmentally conscious economic and social development.

63. In addition, UNIDO has identified a clear niche in strengthening institutional capacity and policies for the production of high-quality essential medicines in Africa, which will not only meet public health objectives but also create employment. With that objective in mind, the organization recently entered into a formal collaboration with the African Union Commission to introduce a continent-wide policy on local pharmaceutical production.

IV. Conclusions and recommendations

64. UNIDO statistics demonstrate that the relative resilience of the manufacturing industry in developing countries has shielded many of the poor from the effects of the financial and economic crises. As shown by the development experience of Asia, manufacturing remains a prime source of overall economic growth for developing countries. However, there is growing evidence of a gradual slowdown in the growth of both manufacturing output and exports in recent years, linked to the deteriorating economic and financial conditions in many developed countries.

65. A number of major challenges have emerged which will have an impact upon industrial development or which should be addressed through international industrial cooperation. They include the following: growth and jobs; resource efficiency, energy poverty and climate change; shifting demographics; knowledge creation and transfer; and growing inequalities.

66. A notable shift in the locus of global poverty has occurred, with the majority of the world's poor now living in middle-income countries. To better spread the benefits of wealth creation across societies, industrial development should be integrated into the mainstream of the development agenda beyond 2015, with an emphasis on achieving inclusive and sustainable patterns of industrial development aimed at meeting economic, social and environmental goals.

67. In considering the development agenda beyond 2015, Member States should also consider goals to increase productive capacity and maximize productivity in a sustainable manner, as well as incorporating the goals on energy access, energy efficiency and renewable energy defined by the Sustainable Energy for All initiative.

68. Technology transfer and knowledge networking should be supported as key means to achieve sustainable industrial development. The Green Industry Platform and Sustainable Energy for All partnerships can serve as models in this regard. The organization's diverse range of knowledge platforms for the transfer of technologies can be used as the potential operational elements of a proposed facilitation mechanism for the development, transfer and dissemination of clean and environmentally sound technologies.

69. UNIDO should continue to work in partnership with other relevant actors to promote inclusive and sustainable industrial development across the economic, social and environmental dimensions, and should continue to further enhance the range and developmental impact of services provided to Member States at the global, regional and country levels.

70. **In order to support developing countries through building human and institutional capacities, enhancing international competitiveness, promoting investment and technology transfer, encouraging entrepreneurship, fostering employment for women and youth, developing the agro-industrial sector, securing access to energy and industrial energy efficiency and promoting green industry, UNIDO should further strengthen its activities across the enablers: technical cooperation, convening for knowledge transfer and networking, normative activities, and analytical and policy advisory services.**